COMPASS RESOURCES N.L.

AND ITS CONTROLLED ENTITIES

A.B.N. 51 010 536 820

FINANCIAL STATEMENTS

AND

AUDIT REPORT

31 December 2006

Contents

CORPORATE GOVERNANCE STATEMENT

The Board of Directors of the Company (the Board) is responsible for the corporate governance of the Company and its controlled entities.

Corporate governance is a matter of high importance in the Company and is undertaken with due regard to all of the Company's stakeholders and its role in the community.

The Board periodically reviews its policies and procedures against the 'Principles of Good Corporate Governance and Best Practise Recommendations" published by the ASX Corporate Governance Council.

Unless explicitly stated otherwise the Directors believe that the Company complies with the major principles and the underlying guidelines.

The Board has approved and adopted the following policies and charters with which directors and management are required to comply, and which, inter alia, contain the Information recommended by the ASX Best Practice Recommendations Guidelines to be made available to shareholders/investors. These Policies and charters can be read on the company's website www.compassnl.com.au under "Corporate Governance – Policies & Charters":

- Board charter
- Code of Conduct
- Continuous Disclosure Policy
- Effective Board Performance
- Remuneration Statement
- Shareholder communication policy
- Trading in shares policy
- Interim audit charter
- Risk management policy

ASX BEST PRACTISE RECOMMENDATIONS

The table below contains each of the ASX Best Practise Principles and Guidelines. Where the Company has complied with the principles and guidelines during the reporting period this is indicated with a tick (☑). Where the Company considered it was not appropriate to comply with a particular recommendation this is indicated with a cross (☒) and the Company's reasons are set out in the corresponding note appearing at the end of the table.

		Complied	Note
Principle 1	**To lay solid foundations for management and oversight**	☑	
Guideline 1.1	Formalise and disclose the functions reserved to the Board and those delegated to management	☑	
Principle 2	**Structure the Board to add value**	☑	
Guideline 2.1	A majority of the Board should be independent directors	☒	1
Guideline 2.2	The Chairman should be an independent director	☒	1
Guideline 2.3	The roles of Chairman and Chief Executive Officer/Managing Director should not be exercised by the same individual	☑	
Guideline 2.4	The Board should establish a nomination committee	☒	1
Guideline 2.5	Provide the information set out in *Guide to reporting in Principle 2*	☑	
Principle 3	**Promote ethical and responsible decision making**	☑	
Guideline 3.1	Establish a code of conduct to guide the Directors, the Chief		

	Executive Officer (or equivalent), the Chief Financial Officer (or equivalent) and any other key executives as to:		
	3.1.1 The practices necessary to maintain confidence in the Company's integrity	☑	
	3.1.2 The responsibility and accountability of individuals for reporting and investigating reports of unethical practises	☑	
Guideline 3.2	Disclose the policy concerning trading in Company securities by Directors, officers and employees.	☑	
Guideline 3.3	Provide the information set out in *Guide to reporting on Principle 3*	☑	
Principle 4	**Safeguard integrity in financial reporting**	☑	
Guideline 4.1	Require the Chief Executive Officer (or equivalent) and the Chief Financial Officer (or equivalent) to state in writing to the Board that the Company's financial report present a true and fair view, in all material respects, of the Company's financial condition and operational results and are in accordance with relevant accounting standards	☑	
Guideline 4.2	The Board should establish an Audit Committee	☑	
Guideline 4.3	Structure the Audit Committee so that it consists of: ✓ only non-executive Directors ✓ a majority of independent directors ✓ an independent Chairman who is not the Chairman of the Board ✓ at least 3 members	☒	2
Guideline 4.4	The Audit Committee should have a formal Charter	☑	
Guideline 4.5	Provide the information set out in *Guide to reporting on Principle 4*	☑	
Principle 5	**Make timely and balanced disclosure**	☑	
Guideline 5.1	Establish written policies and procedures designed to ensure compliance with ASX Listing Rules disclosure requirements and to ensure accountability at a senior management level for that compliance	☑	
Guideline 5.2	Provide the information set out in *Guide to reporting on Principle 5*	☑	
Principle 6	**Respect the rights of shareholders**	☑	
Guideline 6.1	Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings	☑	
Guideline 6.2	Request the external auditor to attend the Annual General Meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditors report	☑	
Principle 7	**Recognise and manage risk**	☑	
Guideline 7.1	The Board or appropriate board committee should establish policies on risk oversight and management	☑	
Guideline 7.2	The Chief Executive Officer (or equivalent) and the Chief Financial Officer (or equivalent) should state to the Board in writing that: 7.2.1 The statement given in accordance with best practise recommendation 4.1 (the integrity of financial statements) is founded on a sound system of risk	☑	

	management and internal compliance and control which implements the policies adopted by the Board 7.2.2 The company's risk management and internal compliance and control system is operating efficiently and effectively in all material aspects	
Guideline 7.3	Provide the information indicated in *Guide to reporting on Principle 7*	☑
Principle 8	**Encourage enhanced performance**	☑
Guideline 8.1	Disclose the process for performance evaluation of the Board, its Committees and individual directors, and key executives	☑
Principle 9	**Remunerate fairly and responsibly**	☑
Guideline 9.1	Provide disclosure in relation to the Company's remuneration policies to enable investors to understand: ✓ the cost and benefits of those policies; and ✓ the link between remuneration paid to Directors and key executives and corporate performance	☑
Guideline 9.2	The Board should establish a remuneration committee	☑
Guideline 9.3	Clearly distinguish the structure of Non-Executive Directors remuneration from that of executives	☑
Guideline 9.4	Ensure that payment of equity based executive remuneration is made in accordance with thresholds set in plans approved by shareholders	☑
Guideline 9.5	Provide the information set out in *Guide to reporting on Principle 9*	☑
Principle 10	**Recognise the legitimate interests of shareholders**	☑
Guideline 10.1	Establish and disclose a code of conduct to guide compliance with legal and other obligations to legitimate stakeholders	☑

Note 1: The Company has experienced a period of rapid growth in a relatively short period of time and currently has a Board that comprises 5 directors one of whom meets the criteria of independent director.

In order to comply fully with Principle 2 the Company would be required to elect 4 additional directors and the Company considers that this would result in an overly large Board at substantial expense. Alternatively at least 2 of the current Board would need to be replaced by independent directors. This would mean the loss of substantial knowledge and experience.

The Company does not consider that either of these alternatives is in the best interests of shareholders.

The current Board is aware of its responsibilities and is working on a process that results in compliance with this principle but to a timetable that does not adversely impact on the company.

Note 2: The Company recognises that it is required to create an audit committee which will be fully implemented once the Board structure is determined per principle 2.

Once the structure has been created then an audit committee and charter will be created. Until this occurs an interim audit committee comprising the independent director and a non-executive director(s) and an interim charter has been adopted.

DIRECTORS' REPORT

The Directors present their report together with the financial report of Compass Resources NL ("the Company") and of the consolidated entity, being the Company and its controlled entities, for the year ended 31 December 2006 and the auditor's report thereon.

Directors
The Directors of the Company at any time during the financial year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

Name, qualifications and experience

Gordon Toll, BE Mining (Hons), MSc, MAusIMM
Non-Executive Chairman
Director since July 2001
Chairman since August 2005

Mr. Toll manages his private investment company based in the Isle of Man and has over 30 years experience in senior commercial and technical executive positions with major international resource companies. He is a non-executive Chairman of Perth based LinQ Resources Fund, and a non-executive director of Fortescue Metals Group.

He is also a director of two AIM listed companies, Eastern Mediterranean Resources and Avocet Mining PLC.

Malcolm Humphreys*,* BSc(Hons), PhD, MAusIMM, M.S.E.G., M.S.M.E.
Executive Director
Director since April 1987.

Dr. Humphreys has extensive experience in the mining industry including exploration, mine development and operations. He has held senior executive positions with international companies in Australia, the United States of America, Europe and South Africa.

Richard Swann, BE, MBA, FAusIMM
Managing Director
Director since October 2006.

Mr. Swann is a mining engineer with over 30 years broad technical and management experience in the global minerals industry. He has held senior executive positions with international resource companies in Australia and South America.

Rodney Elvish, FRMIT, Dip.Min.Econ., FAusIMM, CP, MMICA FAICD
Technical Director
Director since October 2004, resigned October 2006.

Mr. Elvish is a consultant metallurgist with over 30 years broad technical and management experience in the global minerals industry. He is a past president of the Australasian Institute of Mining and Metallurgy and Chairman and director of Allstate Explorations NL (under Deed of Company Arrangement).

Philip Cohen*,* BA, LL.B .
Executive Director, Company Secretary and Manager of Corporate & Legal Services
Director since April 1987.

Mr. Cohen commenced practice as a solicitor in NSW in 1970. Prior to joining Compass he was a Senior Legal Adviser to a major international resource company and has practiced extensively in the fields of resource and mining law.

John Chappell*,* BSc(Hons), PhD, FAusIMM, F.S.E.G.
Non-Executive Independent Director
Director since May 1987.

Dr. Chappell has extensive experience in the mining industry in Australia, Europe, Africa and Central America. He has been involved in a number of grass roots discoveries and mine developments.

Company Secretary
Philip Cohen, BA, LL.B .
Executive Director, Company Secretary and Manager of Corporate & Legal Services
Director since April 1987.

Mr. Cohen commenced practice as a solicitor in NSW in 1970. Prior to joining Compass he was a Senior Legal Adviser to a major international resource company and has practiced extensively in the fields of resource and mining law.

Directors Meetings
There were 9 Directors' meetings held during the financial period attended as follows:

Board Meetings

	A	B
G. Toll	8	9
M. Humphreys	6	9
P. Cohen	9	9
J. Chappell	8	9
R. Elvish	7	7
R. Swann	2	2

A – Number of meetings attended
B – Number of meetings held during the time the director held office during the year

Principal Activities
The principal activity of the consolidated entity during the financial year was development of an oxide resource in the Northern Territory and exploration and evaluation for base, energy and precious metals.

Consolidated Result
The net loss of the consolidated entity was $2,754,000 (December 2005: loss of $1,141,000).

Operations Review

Progress and Outlook

The past year has seen the commencement of Compass' transition from an exploration company to a mining company with development of the Browns Oxide Project in the Northern Territory, where mining and production is scheduled to commence in the third quarter 2007.

In the course of the year an in principle agreement was reached with Hunan Nonferrous Metals Corp (HNC) providing for 3 joint ventures (Compass 50%: HNC 50%) for the base and speciality metals oxide and sulphide developments, and continuing regional exploration. HNC will fund capital costs and reimburse and support exploration expenditures. This gives Compass an exceptional low risk development status with significant capital reserves for exploration, raised over the year by share placements with HNC ($30 million) and overseas institutional investors ($40 million).

The Company capitalised on this status with aggressive base metals, uranium and gold exploration and title acquisition programmes in NSW and the Northern Territory over the past year. Compass has set substantial exploration programmes and budgets for the impending field season. The 2007 programmes are aimed, inter alia, at expanding the base metals oxide and sulphide reserves for further feasibility studies, and defining a uranium resource for a feasibility study.

Company Strategy

The Company foresees an exciting year ahead and with the current high commodity demand, aims to assess and develop minable resources as rapidly as possible by:

- completing the Browns oxide (copper, cobalt, nickel) project and commencing full production.
- fast tracking the NT sulphide (lead, copper, cobalt, nickel) project feasibility studies.
- fast tracking Rum Jungle region uranium exploration and feasibility assessments.
- continuing its aggressive NSW and NT exploration programmes.
- initiating exploration of its highly prospective Peruvian gold project.
- acquiring new exploration and potential start-up opportunities.

Browns Oxide

The Browns Oxide mine development is scheduled for completion and production in late 2007.

The year 2006 saw NT government approval of the Mine Management Plan adopting the environmental requirements generated by the 2005 PER process. Plant construction progressed rapidly with site and road upgrades and foundation work, installation of major components and second-hand plant (SXEW plant and mill), and site building completion. Key staff and workforce recruitment proved very successful notwithstanding a highly competitive industry climate.

With associated oxide deposits, Compass projects a 10 year mine life of 1.3 million tonnes per year (tpy) producing 10,000 tpy copper, 1,000 tpy cobalt and 700 tpy nickel.

Browns Sulphide

Compass completed a prefeasibility study in 2002. Once the HNC sulphide joint venture commences a detailed feasibility study will commence. Currently an interim timetable, budget, scope and contractor list is being prepared.

Mt. Fitch Uranium

A resource of 14.5 million pounds uranium was announced in 2006 within the highly prospective Rum Jungle mineral field area held by the Company.

A preliminary development study was carried out in late 2006/early 2007. Drilling in the 2006 field season substantiated the resource and confirmed a thick central zone of mineralisation facilitating open cut mining methods at low strip ratios.

NT Exploration

A total of 15,869 metres of exploration drilling was completed by Compass in 2006 on its NT projects. This metreage will be significantly increased in 2007.

Browns-Browns East

Exploration drilling supports the concept of a single continuous mineralised system over a 2,400 metre strike length, copper-rich in the east passing into copper lead and lead rich mineralisation in the centre of the deposit. Cobalt nickel mineralisation is present in both copper and lead rich zones with zinc mineralisation developing at the western margins. Uranium mineralisation is more prevalent in the east of the deposit.

Browns Deeps

Drilling has intersected significant copper, cobalt, nickel and lead mineralisation at depths greater than 450 metres supporting potential for an additional deep underground minable resource.

Uranium Exploration

Drilling at the Browns East, Kylie and Mt. Fitch prospects yielded encouraging results to be followed up in 2007 in expanded drill programmes.

Gold/PGM Exploration

Initial exploration of the Sargents prospect encountered anomalous near surface gold, with platinum and palladium assay results pending.

NSW Exploration

Tomingley West

Further exploration is planned for 2007 to follow up highly anomalous surface gold/copper values which appear transported from a proximate source.

Cuttaburra/Yancannia

Following initial positive exploration drilling results encountering anomalous copper, silver and tungsten, 5 additional Exploration Licences have been applied for to be covered by a detailed aeromagnetic and radiometric survey, the results of which will form the basis of a substantial 2007 drill campaign.

Trewilga

Alkane has reported additional encouraging gold results to the east of the Wyoming deposit. Compass holds a significant royalty interest and awaits completion of the final feasibility study.

Americas

Compass has completed the purchase of its 70% interest in the highly prospective Nangali gold project in Peru, acquired from Newmont. This potentially high grade low sulphidation epithermal gold vein system defined by outcropping quartz veins with high grade gold and silver, has never been drilled though targets had been identified by Newmont. Compass plans preliminary field work with a view to commencing a drill programme in 2007.

The above information relating to exploration results, mineral resources, or ore reserves is based on information compiled by Dr M.K. Boots,a full time employee of the company, who is a member of Aus.I.M.M. and who consents to the inclusion in this report of the information as presented. Dr. M.K. Boots has sufficient experience relevant to the style of mineralization/type of deposit under consideration and to the relevant activity to qualify as a Competent Person s defined in JORC Code 2004 edition.

Remuneration Report
The Remuneration Report is set out on pages 10 to 14 and forms part of this report.

Environmental regulation
The consolidated entity's operations are subject to environmental regulation under State legislation in relation to its exploration and development activities.

With each tenement licence that has been granted to undertake exploration activities the Company is required to provide a security deposit. This is to ensure that the site is left in the same condition as found.

In addition and in respect of the Oxide Mining Operations the Company was required to prepare a Public Environmental Report (PER) which was subject to public and government review, from which the Northern Territory authorities set environmental regulatory conditions adopted in the Mine Management Plan.

The PER was accepted by the Northern Territory Minister for Natural Resources, Environment and Heritage under the NT Environmental Assessment Act, on 4 May 2006, and by the Commonwealth Department of the Environment and Heritage under the Environment Protection and Biodiversity Conservation Act on 27 June 2006. The Mine Management Plan was approved on 19 August 2006.

Non-audit services provided by auditor
During the year, KPMG, the company's auditor has performed tax advisory services in addition to their statutory duties. No other audit service has been provided by the company's auditors.

Auditor's independence declaration
The auditor's independence declaration is set out on page 15 and forms part of the Directors Report.

Dividends
No dividend has been paid or declared by the Company since the end of the previous financial year, and no dividend will be paid for the current financial year.

Significant Changes in the State of Affairs
Other than as disclosed in this report, in the opinion of the Directors there were no significant changes in the state of affairs of the consolidated entity during the financial year under review.

Events Subsequent to Balance Date
There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity, in subsequent financial years.

Likely Developments
Information about likely developments has been included in the Operations Review section of the annual report.

Directors' Interests and Benefits
The relevant interest of each Director in the capital of the Company as notified by the Directors to the Australian Stock Exchange as at the date of this report is as follows:

		Direct	Indirect	Plan
M. Humphreys	Shares	1,826,000	1,063,400	350,000
	Options	-	-	-
P. Cohen	Shares	1,137,571	8,000	308,000
	Options	200,000	-	-
G. Toll	Shares	188,748	585,214	300,000
	Options	-	1,500,000	-
J. Chappell	Shares	304,191	1,707,077	50,000
	Options	-	-	-
R.Swann	Shares	20,000	-	-
	Options	1,500,000	-	-

"Plan" refers to partly paid shares issued under the Compass Staff Equity Participation Plan.

Share options
Options granted to key management personnel
During or since the end of the financial year, the Company granted unlisted options for no consideration over un-issued ordinary shares in the Company to the following key management personnel:

Directors	Number of options granted	Exercise Price	Expiry Date
G. Toll	300,000	$3.40	31 December 2009
G. Toll	500,000	$4.00	31 December 2009
R. Swann	1,500,000	$2.20	31 December 2010
Officers			
T. Major	250,000	$1.31	31 December 2007
M. Reston	250,000	$1.37	31 December 2007

All options were granted during the financial year.

Un-issued shares under options
At the date of this report un-issued ordinary shares of the company under option are:

Expiry date	Exercise price	Number of shares
1 December 2007	$0.48	1,100,000
1 December 2007	$0.92	230,000
1 December 2007	$1.06	200,000
1 December 2007	$1.31	300,000
30 June 2008	$3.26	100,000
1 December 2008	$0.66	200,000
31 December 2008	$1.69	70,000
31 December 2009	$3.14	150,000
31 December 2009	$3.40	300,000
31 December 2009	$4.00	500,000
31 December 2010	$2.20	1,500,000

All options are unlisted.

These options do not entitle the holder to participate in any share issue of the Company.

Shares issued on exercise of options

During or since the end of the financial year, the Company issued the following ordinary shares as a result of exercise of options.

Number of shares issued	Exercise price
200,000	$1.06
250,000	$1.37
300,000	$0.48

There were no amounts unpaid on the shares issued.

Indemnification and Insurance of Officers

Insurance Premiums

Since the end of the previous financial year the Company has paid insurance premiums in respect of Directors' and Officers' Liability for any past, present or future director, secretary, executive or employee of Compass Resources NL and all subsidiary companies. The insurance premiums relate to:

- costs and expenses incurred by the relevant officers in defending proceedings, whether civil or criminal and whatever their outcome; and

- other liabilities that may arise from their position, with the exception of conduct involving a wilful breach of duty or improper use of information or position to gain a personal advantage.

The premiums were paid in respect of the following officers of the Company and its controlled entities:

M. Humphreys
P. Cohen
J. Chappell
G. Toll
R. Elvish
R. Swann
A. Mooney

The premium paid has not been disclosed as it is subject to the confidentiality provisions of the insurance policy.

Indemnification

Since the end of the previous financial year, the Company has not indemnified or made a relevant agreement for indemnifying against a liability any
person that is or has been an officer or auditor of the Company.

Rounding Off

The company is of a kind referred to ASIC class order98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Dated at Sydney, this 30th March 2007

Signed in accordance with a resolution of the Directors.

P. Cohen

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P. Cohen – Director

REMUNERATION REPORT

This report outlines the remuneration arrangements in place for directors and executives of Compass Resources NL (the "Company").

Principles of compensation

Key management personnel have authority and responsibility for planning, directing and controlling the activities of the Company and the group, including directors of the Company and other executives. Key management personnel comprise the directors of the Company and executives for the Company and the group including the five most highly remunerated S300A (Corporation ACT 2001) executives.

Compensation levels for key management personnel and secretaries of the company and relevant key management personnel of the consolidated entity are competitively set to attract, motivate and retain appropriately qualified and experienced directors and executives.

The Board obtains independent advice on the appropriateness of compensation packages of both the Company and consolidated group given trends in comparative companies and the objectives of the Company's compensation strategy.

The compensation structures explained below are designed to attract suitably qualified candidates, reward the achievement of strategic objectives, and achieve the broader outcome of creation of value for shareholders. The compensation structures take into account:

- ✓ the capability and experience of the key management personnel;
- ✓ the key management personnel's ability to control the performance;
- ✓ the amount of incentives within each key management personnel's compensation.

Compensation packages include a mix of fixed and variable compensation and short / long-term performance based incentives.

In addition to their salaries, the consolidated entity also provides non-cash benefits to its key management personnel.

Remuneration committee
The Board of Directors of the Company is responsible for determining and reviewing compensation arrangements for the directors, the Managing Director (MD) and the senior management team.

The Board assesses the appropriateness of the nature and amount of remuneration of directors and senior managers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team.

Remuneration structure
In accordance with best practice corporate governance, the structure of non-executive director and senior manager remuneration is separate and distinct.

Non-executive director remuneration
The Board seeks to set aggregate remuneration at a level which provides the company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

Structure

The Constitution and the ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between the directors as agreed. The latest determination was at the Annual General Meeting held on 31 May 2006 when shareholders approved an aggregate remuneration of $400,000 per year.

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst directors is reviewed annually. The board considers fees paid to non-executive directors of comparable companies when undertaking the annual review process.

Each non-executive director either receives a fee for being a director of the company or, if other services are provided, under a consultancy agreement. An additional fee may be payable for each board committee on which a director sits. The payment of additional fees for serving on a committee recognises the additional time commitment required by directors who serve on one or more sub committees. At this time there are no such committees, operating or required.

Non-executive directors have long been encouraged by the board to hold shares in the company (purchased by the director on market or issued in lieu of fees at a market price). It is considered good governance for directors to have a stake in the company whose board he or she sits. The non-executive directors of the Company can participate in the Compass Staff Equity Participation Plan.

The remuneration of non-executive directors for the year ended 31 December 2006 is detailed in this report.

Senior manager and executive director remuneration
The Company aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the company and so as to:

- ✓ reward executives for company and individual performance against targets set by reference to appropriate benchmarks;
- ✓ align the interests of executives with those of shareholders;
- ✓ link reward with the strategic goals and performance of the company; and
- ✓ ensure total remuneration is competitive by market standards.

In determining the level and make-up of executive remuneration, the Board subscribed to an independent service that provides detailed guidance on remuneration specifically in relation to the mining industry. The Board uses this report to review executive remuneration.

Remuneration consists of the following key elements:

- ✓ Fixed Remuneration
- ✓ Performance linked remuneration.

The proportion of fixed remuneration and variable remuneration (potential short term and long term incentives) is established for each senior manager by the Board. Details of the remuneration of the 5 most highly remunerated senior managers are presented in this report.

Fixed Remuneration

Objective

The level of fixed remuneration is set so as to provide a base level of remuneration which is both appropriate to the position and is competitive in the market.

Fixed remuneration is reviewed annually by the Board of Directors and the process consists of a review of companywide, business unit and individual performance, relevant comparative remuneration in the market and internal and, where appropriate, external advice on policies and practices.

Structure

Senior managers are given the opportunity to receive their fixed (primary) remuneration in a variety of forms including cash and fringe benefits such as motor vehicles and expense payment plans. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the company.

The fixed remuneration component of the 5 most highly remunerated senior managers is detailed in this report.

Performance-linked remuneration

Performance-linked remuneration includes both short-term and long-term incentives and is designed to reward executive directors and senior executives for meeting or exceeding their financial and personal objectives. The short-term incentive (STI) is an “at risk” bonus provided in the form of cash, while the long-term incentive (LTI) is provided as shares in the Company under the rules of the Compass Management Share Plans. As the Company has developed significantly in the last two years it is considered appropriate to adjust the Share Plan and allow shareholders to vote at the next Annual General Meeting to be held in May 2007.

Variable Remuneration — Short Term Incentive (STI)

Objective

The objective of the STI plan is to reward senior managers and other employees in a manner which recognises achievement of key performance indicators as determined by the Board.

Structure

STI to executives are delivered in the form of cash.

Variable Remuneration — Long Term Incentive (LTI)

Objective

The objective of the LTI plan is to reward senior managers in a manner which aligns this element of remuneration with the creation of shareholder wealth.

As such LTI grants are only made to executives who are able to influence the generation of shareholder wealth and thus have a direct impact on the Company's performance against the relevant long term performance hurdle.

Structure

LTI grants to executives are delivered in the form of options.

Service agreements

It is the company's policy that service contracts for key management personnel (other than the Managing Director), are unlimited in term but capable of termination on at least one month's notice but not exceeding six months notice and that the company retains the right to terminate the contract immediately by making a payment in lieu of notice.

As announced to the Australian Stock Exchange, Mr Richard Swann was appointed Managing Director of the Company on 21 August 2006. Mr Swann's contract has an initial term of three years that can be extended by mutual agreement. The key elements are:

- ✓ a base remuneration of $400,000 per annum;
- ✓ a long-term incentive consisting of a grant of 1,500,000 options over ordinary fully paid shares, subject to the necessary approvals being obtained from shareholders (this was granted in a shareholders meeting on 31 October 2006)

These options vest over the next three years as follows:

- ✓ Tranche 1 – 500,000 options exercisable on or after 20 August 2007 and expiring 31December 2010;
- ✓ Tranche 2 – 500,000 options exercisable on or after 20 August 2008 and expiring 31December 2010;
- ✓ Tranche 3 – 500,000 options exercisable on or after 20 August 2009 and expiring 31December 2010;

The Company may terminate Mr Swann's appointment without cause by paying the employee an amount equal to the salary and superannuation contributions that the employee would have received during the remaining period of the Service Agreement.

For the current contract a maximum payment of $1,066,667 would be payable to Mr Swann.

There are no other service agreements with key management personnel at 31 December 2006.

Three "founder" employees have employment contracts that specify that the Company is required to give them written notice if their employment is to be terminated. The notice period is specified as 6 months plus one additional week for every year of service in excess of 10 years of service. All other employee's are under a standard one month of notice in writing.

Long service leave entitlements for executive directors and certain employees are 6 months after 10 years continuous service and 3 months for each additional 5 years continuous service. For all other employees the entitlement is calculated in accordance with the relevant State or Territory Long Service Leave legislation.

The remuneration of key management personnel are reviewed annually.

Key management personnel compensation

The following were key management personnel of the consolidated entity at any time during the reporting period and unless otherwise indicated were key management personnel for the entire period:

Non-executive directors

Mr Gordon Toll
Mr John Chappell
Mr Rod Elvish (resigned 20 October 2006)

Executive directors

Mr Malcolm Humphreys
Mr Richard Swann (appointed 9 October 2006)
Mr Phillip Cohen

Executives

Mr Len Spencer (General Manager – Northern Territory)
Mr Marcus Reston (GIS Manager)
Mr Tim Major (Regional Exploration Manager)
Mr Max Boots (Exploration Manager)
Mr Andrew Mooney (Chief Financial Officer)

Director and key management remuneration for the year ended 31 December 2006
Details of the nature and amount of each major element of remuneration of each director of the Company and key management who receive the highest remuneration are:

		Short term employee benefits	Other long term benefits	Share based payment	Value of vested options	Post employment benefit & termination benefits	Total
		$	$	$	$	$	$
Non-Executive Directors							
Mr J Chappell	2006	80,000	-	12,500	6,213	-	98,713
Mr G Toll	2006	197,376	-	846,000	773,964	-	1,817,340
Mr R Elvish	2006	211,608	-	-	24,625	-	236,233
Executive Directors							
Mr M Humphreys	2006	198,095	-	-	9,320	17,829	225,244
Mr P Cohen	2006	134,585	-	-	6,213	12,113	152,911
Mr R Swann	2006	136,170	-	-	368,353	11,009	515,532
Key Management							
Mr L Spencer	2006	186,789	-	-	26,211	13,211	226,211
Mr M Boots	2006	126,557	-	-	23,541	11,390	161,488
Mr A Mooney	2006	160,066	-	-	26,211	13,934	200,211
Mr T Major	2006	108,760	-	-	78,575	9,488	196,823
Mr M Reston	2006	74,387	-	-	140,775	6,694	221,856
Total		**1,614,393**	**-**	**858,500**	**1,484,001**	**95,668**	**4,052,562**

Analysis of share based payment granted as remuneration

	Grant Date	**Number**	**Vesting date**	**Value per option**	**Exercise price**	**Share price at grant date**
Mr. T Major	February 2006	125,000	February 2006	31.4 cents	$1.31	$1.43
Mr. T Major	February 2006	125,000	December 2006	31.4 cents	$1.31	$1.43
Mr. M Reston	March 2006	125,000	March 2006	56.3 cents	$1.37	$1.78
Mr. M Reston	March 2006	125,000	December 2006	56.3 cents	$1.37	$1.78
Mr. G Toll	November 2006	300,000	November 2006	235.1 cents	$3.40	$4.41
Mr. G Toll	November 2006	250,000	September 2007	215.8 cents	$4.00	$4.41
Mr. G Toll	November 2006	250,000	September 2008	215.8 cents	$4.00	$4.41
Mr. R Swann	November 2006	500,000	August 2007	301.2 cents	$2.20	$4.41
Mr. R Swann	November 2006	500,000	August 2008	301.2 cents	$2.20	$4.41
Mr. R Swann	November 2006	500,000	August 2009	301.2 cents	$2.20	$4.41

Options granted as part of remuneration have been valued using the Black Scholes option pricing model, which takes account of factors including the option exercise price, the current level and volatility of the underlying share price, the risk-free interest rate, expected dividends on the underlying share, current market price of the underlying share and the expected life of the option. See below for further details.

Fair values of options:
The fair value of each option is estimated on the date of grant using a Black Scholes option-pricing model with the following assumptions used for grants made during 2006.

Dividend yield	0.0%
Expected volatility	60%
Risk free rate	5.6% to 5.9%
Expected life of option	Range between 0 and 41 months depending on the grant date.

Currently, these fair values are recognised as expenses in the financial statements (note 4). No adjustments to these amounts have been made to reflect estimated or actual forfeitures (i.e., options that do not vest).

Analysis of movements in options

The movement during the reporting period, by value, of options over ordinary shares in the Company held by each director and key management personnel is detailed below.

	Granted in year $ (A)	Exercised in year $ (B)	Forfeited in year $	Total option value in year $
Mr. G Toll	1,784,420	-	-	1,784,420
Mr. R Elvish	-	1,506,000	-	1,506,000
Mr R Swann	4,518,450	-	-	4,518,450
Mr M Reston	140,775	1,045,000	-	1,185,775
Mr T Major	94,290	-	-	94,290
Mr A Mooney	-	898,000	-	898,000
	6,537,935	**3,449,000**	**-**	**9,986,935**

(A) The value of options granted in the year is the fair value of the options calculated at grant date using a Black Scholes model. The total value of the options granted is included in the table above. The amount is allocated to remuneration over the vesting period.

(B) The value of options exercised during the year is calculated as the market price of shares of the Company on the Australian Stock Exchange as at close of trading on the date the options were exercised after deducting the price paid to exercise the option.

KPMG

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of Compass Resources NL

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 31 December 2006 there have been:

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Anthony Jones
Partner

Sydney

Income Statements

For the year ended 31 December 2006

In AUD (thousands)	*Note*	Consolidated 2006	Consolidated 2005	The Company 2006	The Company 2005
Revenue		50	45	45	45
Depreciation		(65)	(15)	(65)	(15)
Employee benefits expense	*4*	(3,198)	(550)	(3,198)	(550)
Exploration expenditure written-off		(85)	(428)	(85)	(101)
Impairment loss on loans		-	-	-	(381)
Other operating expenses		(2,281)	(569)	(2,345)	(591)
Operating (loss) before net financing income		**(5,579)**	**(1,517)**	**(5,648)**	**(1,593)**
Finance income	*5*	2,838	376	2,838	376
Finance expenses	*5*	(15)	-	(15)	-
Net finance income		**2,823**	**376**	**2,823**	**376**
Loss before tax		**(2,756)**	**(1,141)**	**(2,825)**	**(1,217)**
Income tax benefit	*6*	2	-	22	-
Loss for the period		**(2,754)**	**(1,141)**	**(2,803)**	**(1,217)**
Attributable to:					
Equity holders of the parent		**(2,754)**	**(1,141)**	**(2,803)**	**(1,217)**
Basic loss per share	*18*	**(2.66c)**	(1.67c)		
Diluted loss per share	*18*	**(2.66c)**	(1.67c)		

The Income Statements should be read in conjunction with the accompanying notes.

Statements of Recognised Income and Expense

For the year ended 31 December 2006

In AUD (thousands)	*Note*	Consolidated 2006	Consolidated 2005	The Company 2006	The Company 2005
Exchange differences on translation of foreign operations		-	(24)	-	-
Loss for the year		(2,754)	(1,141)	(2,803)	(1,217)
Total recognised income and expenses for the year	*17*	**(2,754)**	**(1,165)**	**(2,803)**	**(1,217)**

Other movements in equity arising from transactions with owners as owners are set out in note 17.

The Statements of Recognised Income and Expenses should be read in conjunction with the accompanying notes.

Balance Sheets

As at 31 December 2006

In AUD (thousands)	*Note*	Consolidated 2006	Consolidated 2005	The Company 2006	The Company 2005
Assets					
Cash and cash equivalents	*7*	52,264	15,288	52,264	15,288
Receivables	*8*	2,029	166	2,029	166
Prepayments		275	42	275	42
Total current assets		**54,568**	**15,496**	**54,568**	**15,496**
Receivables	*8*	6,071	182	6,086	195
Investments	*26*	-	-	20,184	-
Deferred tax	*13*	-	-	477	-
Property, plant and equipment	*9*	33,121	2,509	33,121	2,509
Intangible – exploration and evaluation expenditure	*10*	49,685	18,993	23,523	18,991
Total non-current assets		**88,877**	**21,684**	**83,391**	**21,695**
Total assets		**143,445**	**37,180**	**137,959**	**37,191**
Liabilities					
Trade and other payables	*12*	5,745	477	5,745	477
Loans and borrowings	*14*	67	24	67	24
Employee benefits	*15*	552	389	552	389
Total current liabilities		**6,364**	**890**	**6,364**	**890**
Deferred tax	*13*	5,516	-	-	-
Loans and borrowings	*14*	212	-	212	-
Restoration Provision	*16*	-	210	-	142
Employee benefits	*15*	1	-	1	-
Total non-current liabilities		**5,729**	**210**	**213**	**142**
Total liabilities		**12,093**	**1,100**	**6,577**	**1,032**
Net assets		**131,352**	**36,080**	**131,382**	**36,159**
Equity					
Issued capital	*17*	138,437	42,215	138,437	42,215
Reserves	*17*	2,168	364	2,167	363
Accumulated losses	*17*	(9,253)	(6,499)	(9,222)	(6,419)
Total equity attributable to equity holders of the parent		**131,352**	**36,080**	**131,382**	**36,159**
Total equity	*17*	**131,352**	**36,080**	**131,382**	**36,159**

The Balance sheets should be read in conjunction with the accompanying notes

Statements of Cash Flows

For the year ended 31 December 2006

In AUD (thousands)	*Note*	Consolidated 2006	Consolidated 2005	The Company 2006	The Company 2005
Cash flows from operating activities					
Cash paid to suppliers and employees		(3,811)	(693)	(3,806)	(693)
Cash used in operations		(3,811)	(693)	(3,806)	(693)
Interest paid		(15)	-	(15)	-
Interest received		2,838	310	2,838	310
Net cash from operating activities	*24*	**(988)**	**(383)**	**(983)**	**(383)**
Cash flows from investing activities					
Payment for security deposits		(5,876)	(7)	(5,876)	(7)
Proceeds from sale of mining interest		50	45	45	45
Proceeds from sale of investments		-	-	-	-
Acquisition of property, plant and equipment		(26,133)	(2,480)	(26,133)	(2,480)
Payments for exploration and evaluation expenditure		(4,466)	(1,198)	(4,466)	(1,198)
Net cash from investing activities		**(36,425)**	**(3,640)**	**(36,430)**	**(3,640)**
Cash flows from financing activities					
Proceeds from the issue of share capital	*17*	75,654	15,190	75,654	15,190
Payment of transaction costs		(1,518)	(757)	(1,518)	(757)
Proceeds from lease drawdown		310	-	310	-
Payment of finance lease liabilities		(57)	(9)	(57)	(9)
Net cash from financing activities		**74,389**	**14,424**	**74,389**	**14,424**
Net increase in cash and cash equivalents		36,976	10,401	36,976	10,401
Cash and cash equivalents at 1 January		15,288	4,887	15,288	4,887
Cash and cash equivalents at 31 December	*7*	**52,264**	**15,288**	**52,264**	**15,288**

The Statement of Cash flows should be read in conjunction with the accompanying notes

Notes to the Consolidated Financial Statements

1. Reporting entity

Compass Resources N.L. (the "Company") is a company domiciled in Australia. The address of the Company's registered office is Level 5, 384 Eastern Valley Way, Roseville NSW. The consolidated financial reports of the Company as at and for the year ended 31 December 2006 comprise the Company and its subsidiaries (together referred to as the "Group") and Group's interest in associates and jointly controlled entities. The Group is involved in minerals exploration and development of processing mines.

2. Basis of preparation

(a) Statement of compliance
The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards, Urgent Issues Group Interpretations adopted by the Australian Accounting Standards Board ("AASB") and the Corporations Act 2001. International Financial Reporting Standards ("IFRSs") form the basis of Australian Accounting Standards adopted by the AASB, being Australian equivalents to IFRS ("AIFRS").

The financial statements were approved by the Board of Directors on 16 March 2007.

(b) Basis of measurement
The financial report is presented in Australian dollars and is prepared on the historical cost basis except for liabilities for share based payment arrangement which are measured at fair value.

(c) Functional and presentation currency
The consolidated financial statements are presented in Australian dollars, which is the Company's functional currency and the functional currency of the majority of the Group. The group is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 (updated by CO 05/641 effective 28 July 2005 and CO 06/51 effective 31 January 2006) and in accordance with the Class Order, all financial information presented in Australian dollars has been rounded to nearest thousand unless otherwise stated.

(d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently by Group entities.

(a) Basis of consolidation

(i) Subsidiaries
Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

In the Company's financial statements, investments in subsidiaries are carried at cost.

(ii) Jointly controlled operations and assets
The interest of the Company and of the group in unincorporated joint ventures and jointly controlled assets are brought to account by recognising in its financial statements the assets it controls, the liabilities that it incurs, the expenses it incurs and its share of income that it earns from the sale of goods or services by the joint venture.

(iii) Transactions eliminated on consolidation
Intragroup balances and any unrealised income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

***(b)* Foreign currency**
.
(i) Foreign currency transactions
Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the foreign exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments or a financial liability designated as a hedge of the net investment in a foreign operation (see (iii) below).

(ii) Foreign operations
The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Australian dollars at exchange rates at the reporting date. The income and expenses of foreign operations are

translated to Australian dollars at exchange rates at the dates of the transactions.

Foreign currency differences are recognised directly in equity.

(c) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs, except as described below. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances and call deposits.

Accounting for finance income and expense is discussed in note 3(k).

(ii) Share capital

Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any related income tax benefit.

(d) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is recognised in profit or loss using a straight-line method over the estimated useful lives of each part of an item of property, plant and equipment except for motor vehicles which are depreciated over a decline balance method. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

The estimated useful lives in the current and comparative periods are as follows:

- plant and equipment 3 -8 years
- fixtures and fittings 3 -8 years
- leased assets 3 -8 years

Depreciation methods, useful lives and residual values, if not insignificant, are reassessed at the reporting date.

(e) Intangible assets

(i) Exploration and Evaluation

Exploration and evaluation costs, including the costs of acquiring licences, are capitalised as exploration and evaluation assets on a project by project basis pending determination of the technical feasibility and commercial viability of the project. The capitalised costs are presented as either tangible or intangible exploration assets according to the nature of the assets acquired. When a licence is relinquished or a project abandoned, the related costs are recognised in profit and loss immediately.

(ii) Research and Development

Development costs are capitalised upon the consolidated entity demonstrating (i) the technical feasibility of completing the development so that it will be available for use and (ii) how the development costs will generate probable future economic benefits.

Exploration, evaluation and development assets are assessed for impairment if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

When production commences, carried forward exploration, valuation and development costs will be amortised to the income statement on a units of production basis over the life of the economically recoverable reserves.

(f) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Group's balance sheet.

(g) Impairment

Non-financial assets
The carrying amounts of the Group's non-financial assets, other than exploration and evaluation assets and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a *pro rata* basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(h) Employee benefits

(i) Long-term employee benefits

Defined contribution superannuation funds
Obligations for contributions to defined contribution superannuation funds are recognised as an expense in profit or loss when they are due.

Other long-term employee benefits
The Group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date on Commonwealth Government bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed using the projected unit credit method. Any actuarial gains or losses are recognised in profit or loss in the period in which they arise.

(ii) Short term benefits

Liabilities for employee benefits for wages, salaries, annual leave and sick leave represent present obligations resulting from employees' services provided to reporting date and are calculated at undiscounted amounts based on remuneration wage and salary rates that the Group expects to pay as at reporting date including related on-costs, such as workers compensation insurance and payroll tax. Non-accumulating non-monetary benefits, such as medical care, housing, cars and free or subsidised goods and services, are expensed based on the net marginal cost to the Group as the benefits are taken by the employees.

A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(ii) Share-based payment transactions

The grant date fair value of options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest.

The fair value of employee stock options is measured using the Black-Scholes formula. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

(I) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(j) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

(k) Finance income and expenses

Finance income comprises interest income on funds invested, dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, foreign currency gains, and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues, using the effective interest method.

Finance expenses comprise interest expense on borrowings. All borrowing costs are recognised in profit or loss using the effective interest method.

(l) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

(m) Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(n) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

(o) Segment reporting

A segment is a distinguishable component of the group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The group's primary format for segment reporting is based on geographical segments.

The group operates predominately in the exploration and evaluation of base energy and process metals in Australia.

Notes to the Consolidated Financial Statements

4 Personnel expenses

In AUD (thousands)	***Note***	Consolidated 2006	Consolidated 2005	The Company 2006	The Company 2005
Wages and salaries		449	105	449	105
Other associated personnel expenses		895	53	895	53
Contributions to defined contribution superannuation funds		54	9	54	9
Increase/(decrease) in liability for annual leave		69	-	69	-
Decrease in liability for long-service leave		(73)	21	(73)	21
Equity settled share based payment transactions	*19*	1,804	362	1,804	362
		3,198	**550**	**3,198**	**550**

5 Finance income and expense

In AUD (thousands)	Consolidated 2006	Consolidated 2005	The Company 2006	The Company 2005
Interest income on bank deposits	2,838	376	2,838	376
Interest expense on financial liabilities	(15)	-	(15)	-
Net finance income and expense	**2,823**	**376**	**2,823**	**376**

Notes to the Consolidated Financial Statements

6 Income Tax Expense in the income statement

In AUD (thousands)	Consolidated 2006	Consolidated 2005	The Company 2006	The Company 2005
Current tax benefit				
Current period	(2)	(234)	(22)	(256)
Adjustment for to prior periods	-	-	-	-
	(2)	(234)	(22)	(256)
Deferred tax expense				
Current period deferred tax assets not recognised	-	234	-	256
Movement in temporary difference	2,601	-	2,517	-
Tax losses	(2,601)	-	(2,517)	-
Income tax benefit in income statement	**(2)**	**-**	**(22)**	**-**

Numerical reconciliation between tax benefit and pre-tax net loss

In AUD (thousands)	Consolidated 2006	Consolidated 2005	The Company 2006	The Company 2005
Loss before tax	(2,756)	(1,141)	(2,825)	(1,217)
Prima facie Income tax benefit using the domestic corporation tax rate of 30%	(827)	(342)	(848)	(365)
Increase/(decrease) in income tax expense due to:				
Non-deductible expenses	893	109	893	109
Recovery of deferred tax assets, not previously brought to account	(68)	-	(68)	-
Current year losses for which no deferred tax assets not recognised	-	234	-	256
Income tax benefit on pre-tax net loss	**(2)**	**-**	**(22)**	**-**

Notes to the Consolidated Financial Statements

7 Cash and cash equivalents

In AUD (thousands)	Consolidated 2006	Consolidated 2005	The Company 2006	The Company 2005
Bank balances	13,557	36	13,557	36
Call deposits	38,707	15,252	38,707	15,252
Cash and cash equivalents in the statement of cashflows	**52,264**	**15,288**	**52,264**	**15,288**

The effective interest rate on call deposit is 6.39%

8 Receivables

In AUD (thousands)	Consolidated 2006	Consolidated 2005	The Company 2006	The Company 2005
Current				
Other receivables	2,029	166	2,029	166
Non-Current				
Loans to controlled entities	-	-	15	13
Security deposit	6,071	182	6,071	182
	6,071	**182**	**6,086**	**195**

Notes to the Consolidated Financial Statements

9 Property, plant and equipment

	Consolidated				The Company			
In AUD (thousands)	**Plant and equipment**	**Fixtures & fittings**	**Mining & processing Equipment**	**Total**	**Plant and equipment**	**Fixtures & fittings**	**Mining and processing equipment**	**Total**
Cost								
Balance at 1 January 2005	147	57	**-**	**204**	147	57	**-**	**204**
Additions	749	-	1,731	**2,480**	749	-	1,731	**2,480**
Balance at 31 December 2005	896	57	1,731	**2,684**	896	57	1,731	**2,684**
Balance at 1 January 2006	896	57	1,731	**2,684**	896	57	1,731	**2,684**
Additions	402	43	30,310	**30,755**	402	43	30,310	**30,755**
Balance at 31 December 2006	1,298	100	32,041	**33,439**	1,298	100	32,041	**33,439**

In AUD (thousands)	**Plant and equipment**	**Fixtures & fittings**	**Mining & processing Equipment**	**Total**	**Plant and equipment**	**Fixtures & fittings**	**Mining and processing equipment**	**Total**
Depreciation and impairment losses								
Balance at 1 January 2005	108	44	**-**	**152**	108	44	**-**	**152**
Depreciation charge for the year	17	6	**-**	**23**	17	6	**-**	**23**
Balance at 31 December 2005	125	50	**-**	**175**	125	50	**-**	**175**
Balance at 1 January 2006	125	50	**-**	**175**	125	50	**-**	**175**
Depreciation charge for the year	130	13	**-**	**143**	130	13	**-**	**143**
Balance at 31 December 2006	255	63	**-**	**318**	255	63	**-**	**318**
At 1 January 2005	39	13	**-**	**52**	39	13	**-**	**52**
At 31 December 2005	771	7	1,731	**2,509**	771	7	1,731	**2,509**
At 1 January 2006	771	7	1,731	**2,509**	771	7	1,731	**2,509**
At 31 December 2006	1,043	37	32,041	**33,121**	1,043	37	32,041	**33,121**

Leased Motor vehicles

The group leases four motor vehicles under a number of finance lease agreements. At 31 December 2006 the net carrying amount of the leased motor vehicles, classified under plant and equipment was $159K (2005: $24K).

The leased equipment secures leased obligations (see note 14).

Notes to the Consolidated Financial Statements

10 Intangible assets – Exploration and mining expenditure

In AUD (thousands)	Consolidated		Company	
	2006	**2005**	**2006**	**2005**
Mining development -- Mining reserve	26,162	-	-	-
Mining development -- Capitalized exploration	23,523	18,993	23,523	18,991
	49,685	**18,993**	**23,523**	**18,991**

In AUD (thousands)	Consolidated		The Company	
	2006	**2005**	**2006**	**2005**
Costs carried forward in respect of areas of interest in the exploration and/or evaluation are as follows:				
Opening balance, at costs	18,993	17,949	18,991	17,627
Expenditure incurred in current period	4,615	1,472	4,617	1,465
Mining reserves acquired	26,162	-	-	-
Expenditure written off	(85)	(428)	(85)	(101)
	49,685	**18,993**	**23,523**	**18,991**

Notes to the Consolidated Financial Statements

11 Interest in joint venture operations

In AUD (thousands)	Consolidated 2006	Consolidated 2005	The Company 2006	The Company 2005
Non-current assets – intangibles				
Exploration and evaluation expenditure	49,685	18,993	23,523	18,991

The group has entered into joint ventures for the purpose of mineral exploration and mining with interests in joint venture areas as follows:

Browns/Browns East/Area 55/ Mt. Fitch Projects - NT
The Company (90%) and its wholly owned subsidiary Guardian Resources Pty. Ltd. (10%) hold 100% of these projects. These projects will be subject to the Company's pending agreements with Hunan Nonferrous Metals Corp covering the Oxide Mining Joint Venture, the Sulphide Mine Development Joint Venture, the Regional Exploration Joint Venture, under which each party will hold a 50% joint venture interest.

The respective interests are subject to Cameco (Australia) Pty. Ltd's 3% Net Profits Interest on certain tenements, and Anglo Gold Ltd's Net Smelter Return entitlement of 1% or 3% on certain tenements (excluding the Browns tenements).

Batchelor Iron Ore - NT
Under an agreement with the Company (90%) and Guardian Resources Pty. Ltd. (10%), Territory Iron Pty. Ltd. will test the iron ore mining potential of and, if positive, mine iron ore in sections of ERL125, ERL 146 and ML N1163 north of the Browns Leases. Under the agreement Territory Iron has paid the Company/Guardian Resources $150,000 and will annually pay $50,000 pending a development decision or withdrawal. These payments are non-refundable advances against the purchase by Territory Iron of ore ex-mine gate at $1 per tonne plus or minus an adjustment for ore grades more or less than 60% iron.

West Finniss Projects - NT
The Company can acquire a 70% interest in these projects from two consortiums of J.A. Earthrowl and ors, for a total expenditure of $300,000 subject to rights of withdrawal. Thereafter the parties will contribute to subsequent joint venture expenditure proportionally or dilute respective interests.

Trewilga - NSW
Alkane Exploration Ltd. acquired the Company's interest in EL 5675. The Company retains a substantial royalty interest in EL 5675 comprising:

a) $0.75 per dry tonne of ore treated for the first 500,000 tonnes.
b) 3% royalty of gold and other minerals recovered in respect of subsequent ore treated until the production of 150,000 ounces rising thereafter to 5%.

Cuttaburra/Yancannia - NSW
The Company holds this project subject to an agreement with Bohuon Resources Pty. Ltd., whereby the Company will pay a success fee in the event of mine development , equivalent to a 3% Net Profits Interest or $3 million, at the Company's election.

Alectown East/Houston - NSW
The Company holds a 90% interest in the Alectown East tenements funding its coventurer's Metallic Resources Pty. Ltd's 10% interest to completion of a bankable feasibility study.

Nangali - Peru
The Company acquired 70% interest, and Indo Mines Ltd (formerly AKD Ltd.) a 30% interest in the Nangali gold project from Newmont's Peruvian subsidiary. Compass and Indo Mines proportionally contributed to the Nangali acquisition of US$180,000 plus a 2% royalty on future commercial production.

Included in the assets of the Company and the group are mining tenements which represent the Company and consolidated entities interest in the assets and liabilities in the Joint Ventures.

Notes to the Consolidated Financial Statements

12 Trade and other payables

In AUD (thousands)	Consolidated 2006	Consolidated 2005	The Company 2006	The Company 2005
Trade payables	5,049	422	5,049	422
Non-trade payables and accrued expenses	696	55	696	55
	5,745	**477**	**5,745**	**477**

13 Recognised tax assets and liabilities

In AUD (thousands)

Deferred tax assets and liabilities are attributable to the following:

	Consolidated 2006	Consolidated 2005	The Company 2006	The Company 2005
Intangible assets	14,278	5,655	8,221	5,655
Provisions	(166)	(117)	(166)	(117)
Other Items	(362)	2	(362)	2
Tax loss carry-forwards	(8,234)	(5,540)	(8,170)	(5,540)
Net tax (asset)/liability	**5,516**	**-**	**(477)**	**-**

Unrecognised tax assets

Deferred tax assets have not been recognised in respect of the following items:

	Consolidated 2006	Consolidated 2005	The Company 2006	The Company 2005
Unused Tax losses	-	-	-	-
Capital losses	1	1	1	1
	1	**1**	**1**	**1**

The deductible temporary differences and tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits there from.

14 Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. For more information about the Group's exposure to interest rate risk, see note 20.

In AUD (thousands)	Consolidated 2006	Consolidated 2005	The Company 2006	The Company 2005
Current liabilities				
Finance lease liabilities	67	24	67	24
	67	**24**	**67**	**24**
Non-current liabilities				
Finance lease liabilities	212	-	212	-
	212	**-**	**212**	**-**

Notes to the Consolidated Financial Statements

14 Loans and borrowings (continued)

Terms and conditions of outstanding loans were as follows:

In AUD (thousands)				31 Dec 06		31 Dec 05	
	Currency	**Nominal interest Rate**	**Year of maturity**	**Face Value**	**Carrying amount**	**Face Value**	**Carrying amount**
Finance Lease Liabilities	*AUD*	*7.67-11.99%*	*2009-2010*	*279*	*279*	*24*	*24*

Finance lease liabilities of the group are payable as follows:

In AUD (thousands)

	Minimum lease payments 2006	**Interest 2006**	**Principal 2006**	**Minimum lease payments 2005**	**interest 2005**	**Principal 2005**
Less than 1 year	91	24	67	25	1	24
Between 1 and 5 years	241	29	212	-	-	-
	332	**53**	**279**	**25**	**1**	**24**

The group's lease liabilities are secured by the leased assets of $158,961 (2005 $23,597), as in the event of a default, the assets revert to the lessor.

15 Employee benefits

Current

	Consolidated		The Company	
In AUD (thousands)	**2006**	**2005**	**2006**	**2005**
Liability for annual leave	128	12	128	12
Liability for long-service leave	424	377	424	377
Total employee benefits	**552**	**389**	**552**	**389**

Non-current

Liability for long-service leave	1	-	1	-
Total employee benefit	**1**	**-**	**1**	**-**

Expense recognised in profit and loss

The expense is recognised in the following line item in the income statement

In AUD(thousands)	Consolidated		The Company	
	2006	**2005**	**2006**	**2005**
Employee benefits expense	**(4)**	**21**	**(4)**	**21**

Notes to the Consolidated Financial Statements

16 Provisions

In AUD (thousands)	Site restoration	Employee benefits	Total
Consolidated			
Balance at 1 January 2006	210	389	**599**
Provisions made during the period	-	221	**221**
Provisions used during the period	-	(57)	**(57)**
Provisions reversed during the period	(210)	-	**(210)**
Balance at 31 December 2006	-	**553**	**553**
Current	-	**552**	**552**
Non-Current	-	**1**	**1**
	-	**553**	**553**
Company			
Balance at 1 January 2006	142	389	**531**
Provisions made during the period	-	221	**221**
Provisions used during the period	-	(57)	**(57)**
Provisions reversed during the period	(142)	-	**(142)**
Balance at 31 December 2006	-	**553**	**553**
Current	-	**552**	**552**
Non-Current	-	**1**	**1**
	-	**553**	**553**

Notes to the Consolidated Financial Statements

17 Capital and reserves

Reconciliation of movement in capital and reserves

Attributable to equity holders of the parent

Consolidated *In AUD (thousands)*	**Share capital**	**Translation reserve**	**Reserve for own shares**	**Retained earnings**	**Total**
Balance at 1 January 2005	27,671	25	-	(5,358)	22,338
Total recognised income and expense	-	(24)	-	(1,141)	(1,165)
Issue of ordinary shares	15,142	-	-	-	15,142
Share options exercised	48	-	-	-	48
Equity-settled transactions	111	-	363	-	474
Transaction costs associated with issue of shares	(757)	-	-	-	(757)
Balance at 31 December 2005	**42,215**	**1**	**363**	**(6,499)**	**36,080**
Balance at 1 January 2006	42,215	1	363	(6,499)	36,080
Total recognised income and expense	-	-		(2,754)	(2,754)
Issue of ordinary Shares	74,955	-	-	-	74,955
Share options exercised	699	-	-	-	699
Equity-settled transactions	21,631	-	1,804	-	23,435
Transaction costs associated with issue of shares	(1,063)	-	-	-	(1,063)
Balance at 31 December 2006	**138,437**	**1**	**2,167**	**(9,253)**	**131,352**

Notes to the Consolidated Financial Statements

17 Capital and reserves (continued)

Reconciliation of movement in capital and reserves

Attributable to equity holders of the parent

Company *In AUD (thousands)*	**Share capital**	**Translation reserve**	**Reserve for own shares**	**Retained earnings**	**Total**
Balance at 1 January 2005	27,671		-	(5,202)	22,469
Total recognised income and expense	-	-	-	(1,217)	(1,217)
Share options exercised	48	-	-	-	48
Equity-settled transactions	111	-	363	-	473
Issue of ordinary shares	15,142	-	-	-	15,142
Transaction costs associated with issue of shares	(757)	-	-	-	(757)
Balance at 31 December 2005	**42,215**	**-**	**363**	**(6,419)**	**36,159**
Balance at 1 January 2006	42,215	-	363	(6,419)	36,159
Total recognised income and expense	-	-	-	(2,803)	(2,803)
Share options exercised	699	-	-	-	699
Equity-settled transactions	21,631	-	1,804	-	23,435
Shares issued	74,955	-	-	-	74,955
Transaction costs associated with issue of shares	(1,063)	-	-	-	(1,063)
Balance at 31 December 2006	**138,437**	**-**	**2,167**	**(9,222)**	**131,382**

Share capital

	Ordinary shares	
In number of shares	**2006**	**2005**
On issue at 1 January	78,036,767	65,587,164
Issued for cash	36,300,000	12,177,000
Issued for exchange of share options	750,000	100,000
Issued as consideration for acquisition	8,250,000	-
Issued in exchange for services and/or goods	1,007,745	172,603
On issue at 31 December – fully paid	124,344,512	78,036,767

The group has also issued share options (see note 19).

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations, as well as from the translation of liabilities that hedge the Company's net investment in a foreign subsidiary.

Reserve for own shares

The reserve for own shares represents the value of shares held by an entity compensation plan that the group is required to include in the consolidated financial statements.

Notes to the Consolidated Financial Statements

17 Capital and reserves (continued)

Dividends

No dividends were paid or declared during 2006.

In AUD (thousands)	2006	2005
30% franking credit available to shareholders of Compass Resources NL for subsequent financial years	180	180

The above available amounts are based on the balance of the dividend franking account at year end.
The ability to utilise franking credits is dependant upon these being sufficient available profits to declare dividends.

18 Earnings per share

The calculation of basic and diluted earnings per share at 31 December 2006 was based on the loss attributable to ordinary shareholders of $2,754,000 (2005: $1,142,000) and a weighted average number of ordinary shares outstanding during the year ended 31 December 2006 of 103,400,000 (2005: 68,419,000), calculated as follows:

Loss attributable to ordinary shareholders

	Consolidated	
In AUD (thousands)	**2006**	**2005**
Loss for the period	(2,754)	(1,141)
Weighted average numbers of ordinary shares		
Issued ordinary shares at 1 January	78,037	65,587
Effect of shares issued throughout 2005	-	2,831
Effect of shares issued throughout 2006	25,363	-
Weighted average number of ordinary shares at 31 December	**103,400**	**68,418**

Loss per share

	Consolidated	
	2006	**2005**
Basic and diluted loss per share	(2.66 cents)	(1.67cents)

Notes to the Consolidated Financial Statements

19 Share-based payments

On 1 May 2005 the group established a share option programme that entitles key management personnel and senior employees to purchase shares in the entity. During 2006, a further grant on similar terms was offered to these employee groups. In accordance with these programmes options are exercisable at a discount of up to 50% to the market price of the shares at the date of grant.

The terms and conditions of the grants are as follows, All options are settled by physical delivery of shares:

Grant date / employees entitled	Number of instruments	Vesting conditions	Contractual life of options
Option grant to key management at 25 May 2005	1,500,000	50% on grant date and 50% on 1 June 2006	31 December 2007
Option grant to key management at 25 May 2005	200,000	50% on grant date and 50% on 1 June 2006	31 December 2008
Option grant to key management at 8 August 2005	230,000	50% on grant date and 50% on 1 December 2006	31 December 2007
Option grant to key management at 12 December 2005	400,000	50% on grant date and 50% on 1 December 2006	31 December 2007
Option grant to key management at 20 February 2006	300,000	50% on grant date and 50% on 1 December 2006	31 December 2007
Option grant to key management at 20 March 2006	250,000	50% on grant date and 50% on 1 December 2006	31 December 2007
Option grant to key management at 24 May 2006	70,000	100% on grant date	31 December 2008
Option grant to key management at 23 June 2006	100,000	100% on 30 June 2008	30 June 2008
Option grant to key management at 18 August 2006	150,000	45% on 1 August 2007 45% on 1 August 2008 and 10% on 1 August 2009	31 December 2009
Option grant to key management at 16 November 2006	1,500,000	1/3 on 20 August 2007 1/3 on 20 August 2008 and 1/3 on 20 August 2009	31 December 2010
Option grant to key management 16 November 2006	300,000	100% on 16 November 2006	31 December 2009
Option grant to key management at 16 November 2006	500,000	50% on 1 September 2007 and 50% on 1 September 2008	31 December 2009

The number and weighted average exercise prices of share options is as follows:

In number of options	Weighted average exercise price 2006	Number of options 2006	Weighted average exercise price 2005	Number of options 2005

Notes to the Consolidated Financial Statements

19 Share based payment (continued)

Outstanding at 1 January		2,230,000	-	-
Forfeited during the period			-	-
Exercised during the period	$0.93	(750,000)	$0.48	(100,000)
Granted during the period	$2.51	3,170,000	$0.64	2,330,000
Outstanding at 31 December	$1.87	**4,650,000**	$0.65	**2,230,000**
Exercisable at 31 December	$1.18	**2,500,000**	$0.65	**1,065,000**

The weighted average share price at the date of exercise for share options exercised in 2006 was $0.93. (2005: $0.48)

The options outstanding at 31 December 2006 have an exercise price in the range of $0.48c to $4.00 and a weighted average contractual life of 38 months.

During the year 750,000 share options were exercised (2005: 100,000). The weighted average share price at the dates of exercise was $5.50.

The fair value of services received in return for share options granted is based on the fair value of share options granted, measured using a Black-Scholes model. The contractual life of the option is used as an input into this model. Expectations of early exercise are not incorporated into the Black-Scholes model. Each option grant was measured separately.

	Directors	**Directors**	**Key management**	**Key management**
Fair value of share options and assumptions	**2006**	**2005**	**2006**	**2005**
Fair value at grant date	$2.16-$3.01	$0.16	$0.31-$2.04	$0.39
Share price range	$4.41	$0.57	$1.43-$3.66	$1.20 - $1.30
Exercise price range	$2.20- $4.00	$0.48 - $0.66	$1.31 - $3.26	$0.92-$1.06
Expected volatility (expressed as weighted average volatility used in the modelling under the Black Scholes model)	65%	23.20%	40.60%	23.20%
Option life (expressed as weighted average life used in the modelling under the Black Scholes model)	37-49 months	31 -43 months	21 - 31 months	24 - 28 months
Expected dividends	-	-	-	-
Risk-free interest rate (based on national government bonds)	5.9%	5.5%	5.6%	5.5%

The expected volatility is based on the historic volatility adjusted for any expected changes to future volatility due to publicly available information.

Share options are granted under a service condition and, for grants to key management personnel, a non-market performance condition. Such conditions are not taken into account in the grant date fair value measurement of the services received. There are no market conditions associated with the share option grants.

Employee expenses

	Consolidated		**The Company**	
In AUD (thousands)	**2006**	**2005**	**2006**	**2005**
Share options granted in 2006	1,804	362	1,804	362
Total expense recognised as employee benefit expense	**1,804**	**362**	**1,804**	**362**

Notes to the Consolidated Financial Statements

20 Financial instruments

Exposure to credit, interest rate and currency risks arises in the normal course of the Group's business.

Credit risk

At the reporting date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet.

Foreign currency risk

Given the minimal exposure to foreign currencies, it is the current policy of the Board not to hedge foreign exchange risk.

Effective interest rates and repricing analysis

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice.

2006 Consolidated

In AUD (thousands)	***Note***	**Effective interest rate**	**Total**	**6 months or less**	**6-12 months**	**1-5 years**
Cash and cash equivalents	*7*	6.25%	52,264	52,264	-	-
Security deposits	*8*	6.28%	6,071	6,071	-	-
Finance lease liabilities*	*14*	9.90%	279	-	67	212
The Company						
Cash and cash equivalents	*7*	6.25%	52,264	52,264	-	-
Security deposits	*8*	6.28%	6,071	6,071	-	-
Finance lease liabilities*	*14*	9.90%	279	-	67	212

2005 Consolidated

In AUD (thousands)	***Note***	**Effective interest rate**	**Total**	**6 months or less**	**6-12 months**
Cash and cash equivalents	*7*	5.3%	15,288	15,288	-
Security deposits	*8*	5.45%	182	182	-
Finance lease liabilities*	*14*	6.43%	24	-	24
The Company					
Cash and cash equivalents	*7*	5.3%	15,288	15,288	-
Security deposits	*8*	5.45%	182	182	-
Finance lease liabilities*	*14*	6.43%	24	-	24

* These assets / liabilities bear interest at a fixed rate.

20 Financial instruments (continued)

Fair values of financial asset and liabilities

The fair values together with the carrying amounts shown in the balance sheet are as follows:

Consolidated *In AUD (thousands)*	***Note***	**Carrying amount 2006**	**Fair value 2006**	**Carrying amount 2005**	**Fair value 2005**
Trade and other receivables	*8*	6,071	6,071	182	182
Cash and cash equivalents	*7*	52,264	52,264	15,288	15,288
Finance lease liabilities	*14*	279	279	24	24
Trade and other payables	*12*	5,745	5,745	477	477

The Company *In AUD (thousands)*	***Note***	**Carrying amount 2006**	**Fair value 2006**	**Carrying amount 2005**	**Fair value 2005**
Trade and other receivables	*8*	6,071	6,071	182	182
Cash and cash equivalents	*7*	52,264	52,264	15,288	15,288
Finance lease liabilities	*14*	279	279	24	24
Trade and other payables	*12*	5,745	5,745	477	477

The methods used in determining the fair value of financial instrument are discussed in Note 4.

21 Operating leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	Consolidated		**The Company**	
In AUD (thousands)	**2006**	**2005**	**2006**	**2005**
Less than one year	186	45	186	45
Between one and five years	831	158	**832**	158
	1,017	**203**	**1,018**	**203**

The Group leases commercial office space for its head office situated at Level 5, 384 Eastern Valley Way, Roseville, NSW, Australia. New lease terms were agreed in August 2005 and the lease expires in April 2009 with an option for a further three years. The Company was entitled to a rent free period of nine months upon the signing of a new lease. The Company also leases office and storage space at Batchelor, Northern Territory and the lease of these premises rolls over on a quarterly basis. The Company is also paying the residential leases for some employees both in Darwin and Batchelor. The Company also leases office in Darwin. The lease commenced in August 2006 and expires in October 2007.

During the year ended 31 December 2006, $182,439 was recognised as an expense in the income statement in respect of operating leases (2005: $33,783).

22 Capital and other commitments

	Consolidated		The Company	
In AUD (thousands)	2006	2005	2006	2005
Capital expenditure commitments				
Plant and equipment				
Contracted but not provided for and payable:				
Within one year	15,979	2,338	15,979	2,338
	15,979	**2,338**	**15,979**	**2,338**

	Consolidated		The Company	
In AUD (thousands)		2005		2005
Exploration expenditure commitments				
Contracted but not provided for and payable:				
Within one year	1,085	578	1,085	578
One year or later and no later than five years	3,920	1,657	3,920	1,657
Later than five years	47	24	47	24
	5,052	**2,259**	**5,052**	**2,259**

In order to maintain current rights of tenure to exploration tenements, both as sole explorer or under joint venture agreements, the Company and the group are required to meet the minimum exploration expenditure requirements as specified by various State governments or as specified by the commercial terms of a joint venture.

23 Contingencies

The Directors are of the opinion that provisions are not required in respect of these matters, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

In AUD (thousands)

	Consolidated	
	2006	2005
The Company has bank guarantees and security deposits in respect of the Company's performance under Australian exploration and mining titles	6,037	6,037
A bank guarantee in respect of the Company's obligations under a commercial office lease for premises situated at Level 5, 384 Eastern Valley Way, Roseville, NSW	21	21

Notes to the Consolidated Financial Statements

24 Reconciliation of cash flows from operating activities

In AUD (thousands)	***Note***	**Consolidated 2006**	**Consolidated 2005**	**The Company 2006**	**The Company 2005**
Cash flows from operating activities					
Loss for the period		(2,754)	(1,141)	(2,803)	(1,217)
Adjustments for:					
Profit on sale of mining interest		(50)	(45)	(45)	(45)
Income tax benefit		(2)		(22)	
Add/(less) non-cash items					
Depreciation		65	15	65	15
Share based payment expenses	*4*	1,804	362	1,804	362
Exploration expenditure written off	*10*	85	428	85	101
Impairment loss		-	-	-	381
Other		5	18	75	38
Equity settled transactions		1,056	75	1,056	75
Operating profit before changes in working capital and provisions		**209**	**(289)**	**215**	**(291)**
Change in receivables		(1,878)	(52)	(1,878)	(52)
Change in prepayments		(110)	(25)	(110)	(25)
Change in employee provisions		165	21	165	21
Change in trade and other payables		626	(38)	626	(38)
Cash generated from the operations		**(1,198)**	**(94)**	**(1,197)**	**(94)**
Net cash from operating activities		**(988)**	**(383)**	**(983)**	**(383)**

25 Related parties

The following were key management personnel of the group at any time during the reporting period and unless otherwise indicated were key management personnel for the entire period:

Non-executive directors
Mr G Toll (Chairman)
Dr J Chappell
Mr R Elvish (resigned 20 October, 2006)

Executive directors
Dr M Humphreys
Mr P Cohen
Mr R Swann (appointed 9 October 2006)

Executives
Dr M Boots (Exploration Manager)
Mr L Spencer (General Manager – Northern Territory)
Mr A Mooney (Chief Financial Officer)
Mr M Reston (GIS Manager)
Mr T Major (Regional Exploration Manager)

Principles of Compensation
Remuneration of key management personnel are approved by the full Board. In determining executive remuneration levels, the Board gives due consideration to comparative companies within the industry and sets levels reflecting the resources of the Company and the need to retain motivated, qualified and experienced personnel.

Executive Directors are solely remunerated by fixed remuneration packages, including fringe benefits, and do not receive directors' fees. Non-cash benefits are not approved as part of the remuneration.

Non-executive directors receive directors' fees which are subject to shareholder approval. The current approved limit for directors' fees is $400,000 per annum.

The Board may also consider performance based remuneration to Directors in the form of shares or options which in all cases will be subject to shareholder approval.

Non-executive director remuneration

The Board seeks to set aggregate remuneration at a level which provides the company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

Structure
The Constitution and the ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between the directors as agreed. The latest determination was at the Annual General Meeting held on 31 May 2006 when shareholders approved an aggregate remuneration of $400,000 per year.

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst directors is reviewed annually.

25 Key management personnel disclosures (continued)

The Board considers fees paid to non-executive directors of comparable companies when undertaking the annual review process.

Each non-executive director either receives a fee for being a director of the company or, if other services are provided, under a consultancy agreement. An additional fee may be payable for each board committee on which a director sits. The payment of additional fees for serving on a committee recognises the additional time commitment required by directors who serve on one or more sub committees. At this time there are no such committees, operating or required.

Non-executive directors have long been encouraged by the Board to hold shares in the Company (purchased by the director on market or issued in lieu of fees at a market price). It is considered good governance for directors to have a stake in the company whose board he or she sits. The non-executive directors of the company can participate in the Compass Staff Equity Participation Plan.

Senior manager and executive director remuneration

The company aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the company and so as to:

- reward executives for company and individual performance against targets set by reference to appropriate benchmarks;
- align the interests of executives with those of shareholders;
- link reward with the strategic goals and performance of the company; and
- ensure total remuneration is competitive by market standards.

In determining the level and make-up of executive remuneration, the Board nominated one of the non-executive directors to provide advice in the form of a written report detailing market levels of remuneration for comparable executive roles.

Remuneration consists of the following key elements:

- Fixed Remuneration
- Long Term Incentive ('LTI').

The proportion of fixed remuneration and variable remuneration (potential short term and long term incentives) is established for each senior manager by the Board. Details of the remuneration of the 5 most highly remunerated senior managers is presented in this report.

Fixed Remuneration

Objective

The level of fixed remuneration is set so as to provide a base level of remuneration which is both appropriate to the position and is competitive in the market.

Fixed remuneration is reviewed annually by the Board of Directors and the process consists of a review of companywide, business unit and individual performance, relevant comparative remuneration in the market and internal and, where appropriate, external advice on policies and practices.

Structure

Senior managers are given the opportunity to receive their fixed (primary) remuneration in a variety of forms including cash and fringe benefits such as motor

vehicles and expense payment plans. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the company.

Variable Remuneration — Long Term Incentive (LTI)

Objective

The objective of the LTI plan is to reward senior managers in a manner which aligns this element of remuneration with the creation of shareholder wealth.

As such LTI grants are only made to executives who are able to influence the generation of shareholder wealth and thus have a direct impact on the Company's performance against the relevant long term performance hurdle.

Structure

LTI grants to executives are delivered in the form of options.

Employment contracts

Mr Richard Swann was employed on 21 August 06 and appointed Managing Director of the Company on 9 October 2006. Mr Swann's contract has an initial term of three years that can be extended by mutual agreement.

Currently there are no other employees employed under contract that has a defined expiry date. The remuneration of key management personnel are reviewed annually. It is the Board's intention that only the Chief Executive Officer will be employed under a contract and at the time of printing this report no Chief Executive Officer had been appointed.

Three employee's have employment contracts that specify that the company is required to give them written notice if their employment is to be terminated. The notice period is specified is 6 months plus one additional week for every year of service in excess of 10 years of service. All other employee's are under a standard one month of notice in writing.

Notes to the Consolidated Financial Statements

25 Key management personnel disclosures (continued)

Key management personnel compensation (consolidated) is as follows:

		Short term employee benefits $	Other long term benefits $	Share based payment $	Value of vested options $	Other $	Post employment benefit & termination benefits $	Total $
Non-Executive Directors								
Mr J Chappell	2006	80,000	-	12,500	6,213	-	-	98,713
	2005	1,850	-	26,483	25,323	-	-	53,656
Mr G Toll	2006	197,376	-	846,000	773,964	-	-	1,817,340
	2005	37,102	-	15,833	88,631	-	-	141,566
Mr R Elvish	2006	211,608	-	-	24,625	-	-	236,233
	2005	145,000	-	-	37,985	-	-	182,985
Executive Directors								
Mr M Humphreys	2006	198,095	-	-	9,320	-	17,829	225,244
	2005	156,966	-	-	37,985	4,025	14,127	213,103
Mr P Cohen	2006	134,585	-	-	6,213	-	12,113	152,911
	2005	89,583	-	-	25,323	4,524	8,062	127,492
Mr R Swann	2006	136,170	-	-	368,353	-	11,009	515,532
	2005	-	-	-	-	-	-	-
Key Management								
Mr L Spencer	2006	186,789	-	-	26,211	-	13,211	226,211
	2005	20,077	-	-	41,451	-	1,806	63,334
Mr M Boots	2006	126,557	-	-	23,541	-	11,390	161,488
	2005	89,583	-	-	55,483	-	8,062	153,128
Mr A Mooney	2006	160,066	-	-	26,211	-	13,934	200,211
	2005	-	-	-	41,451	-	-	41,451
Mr T Major	2006	108,760	-	-	78,575	-	9,488	196,823
	2005	-	-	-	-	-	-	-
Mr M Reston	2006	74,387	-	-	140,775	-	6,694	221,856
	2005	-	-	-	-	-	-	-
Total compensation: key management personnel								
2006		**1,614,393**	**-**	**858,500**	**1,484,001**	**-**	**95,668**	**4,052,562**
2005		**540,161**	**-**	**42,316**	**353,632**	**8,549**	**32,057**	**976,715**

Directors remuneration includes amounts paid by the Company during the period to indemnify directors, but does not include insurance premiums paid by the Company or related parties in respect of Directors' and Officers' Liabilities and Legal Expenses insurance contracts, as the insurance policies do not specify premiums paid in respect of individual directors.

Notes to the Consolidated Financial Statements

25 Related parties (continued)

Key management personnel disclosures (continued)

Equity Instruments

Movement in shares
The movement during the reporting period in the number of ordinary shares of Compass Resources N.L. held, directly, indirectly or beneficially, by each key management personnel, including their personally-related entities is as follows:

	Held at 1 January 2006	Purchases	Shares received upon exercise of options	Sales	Held at 31 December 2006
Specified Directors					
Mr M Humphreys					
- Fully Paid Ordinary Shares	3,975,220	-	-	1,240,820	2,734,400
- Partly Paid Ordinary Shares	484,000	-	-	-	484,000
Mr P Cohen					
- Fully Paid Ordinary Shares	1,145,571	-	-	-	1,145,771
- Partly Paid Ordinary Shares	308,000	-	-	-	308,000
Mr J Chappell					
- Fully Paid Ordinary Shares	1,872,990	8,278	-	-	1,881,268
- Partly Paid Ordinary Shares	300,000	-	-	-	300,000
Mr G Toll					
- Fully Paid Ordinary Shares	2,023,692	200,000	-	1,450,000	773,692
- Partly Paid Ordinary Shares	300,000	-	-	-	300,000
Mr R Elvish					
- Fully Paid Ordinary Shares	351,327	-	300,000	300,000	351,327
- Partly Paid Ordinary Shares	-	-	-	-	-
Mr R Swann					
- Fully Paid Ordinary Shares	-	-	-	-	-
- Partly Paid Ordinary Shares	-	-	-	-	-

8,278 shares were issued in lieu of cash for non-executive directors' fees per AGM approval.
200,000 shares were issued in lieu of cash as performance bonus in a general meeting approval.

The above equity holdings include directors' entitlements arising under the Company Staff Equity Participation Plan.

Notes to the Consolidated Financial Statements

25 Related parties (continued)

Key management personnel disclosures (continued)

Options and rights over equity instruments
The movement during the reporting period in the number of options over ordinary shares The Group held, directly, indirectly or beneficiary, by each key management person, including their related parties, is as follows:

	Held at 1 January 2006	**Granted as compensation**	**Exercised**	**Held at 31 December 2006**	**Vested during the year**	**Vested and exercisable at 31 December 2006**
Directors						
Mr M Humphreys	300,000	-	-	300,000	150,000	300,000
Mr P Cohen	200,000	-	-	200,000	100,000	200,000
Mr J Chappell	100,000	-	-	100,000	100,000	100,000
Mr G Toll	700,000	800,000	-	1,500,000	650,000	1,000,000
Mr R Elvish	300,000	-	300,000	-	150,000	-
Mr R Swann	-	1,500,000	-	1,500,000	-	-
Executives						
Mr. A Mooney	200,000	-	200,000	-	100,000	-
Mr M Reston	-	250,000	250,000	-	250,000	-
Mr T Major	-	250,000	-	250,000	250,000	250,000
Mr L Spencer	200,000	-	-	200,000	100,000	200,000
Mr M boots	200,000	-	-	200,000	100,000	200,000

No options held by key management personnel are vested but not exercisable at 31 December 2006 or 2005.

No options were held by key management person related parties.

Notes to the Consolidated Financial Statements

25 Related parties (continued)

Key management personnel disclosures (continued)

Other key management personnel transactions

Compass Resources N.L. entered into a 14 month contract with Biernacki & Elvish Enterprises Pty Ltd, a company of which Mr R Elvish is a director, for the provision of consultancy services in relation to the Browns project. The contract expired on 31 December 2006 and continued by periodic agreement in relation to regional projects. The option was exercised. Contract terms are based on market rates for these type of services, and amounts are payable on a monthly basis for the duration of the contract. The terms and conditions of the contract are no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to unrelated entities on an arm's length basis.

The details of the transactions with Biernacki & Elvish Pty. Ltd. are as follows:

AUD	**Transaction**	**2006**	**2005**
Key management person			
Mr R Elvish	Consultancy Fees	209,208	139,200
Assets and Liabilities arising from the above transaction			
Current Liabilities			
Trade Creditors		-	23,200

Compass Resources N.L. entered into a 24 month contract with Toll Management Ltd, a company which is a related entity to Mr G Toll, a director of the Company, for the provision of consultancy services in relation to the Browns project. The contract expires on 30 June 2007.

This contract was approved by shareholders at the Annual General Meeting held on 31 May 2006 and upon execution of the contract 100,000 fully paid ordinary shares were issued to Toll Management Ltd.

The contract is subject to review after one year and mutually agreed extensions.

The details of the transactions with Toll Management Ltd are as follows:

AUD	**Transaction**	**2006**	**2005**
Key management person			
Mr G Toll	Consultancy Fees	197,376	37,102
Assets and Liabilities arising from the above transaction			
Current Assets			
Prepayments		159,121	36,497

Apart from the details disclosed in this note, no other Director has entered into a material contract with the Company or the group since the end of the previous financial year and there were no material contracts involving Directors' interests subsisting at year end.

Wholly owned group

Details of interests in wholly owned controlled entities are set out in Note 26. Loans between entities in the wholly owned group are unsecured and repayable at call. Interest-free loans are repayable on demand. The Company does not expect to recall these loans within the next 12 months.
The carrying amount of loans receivable from wholly owned entities, net of provision for non-recovery, was 14,918 (2005: $13,493).

Non Key management personnel disclosures

Identity of related parties
The group has a related party relationship with its subsidiaries (see note 26), joint venture (see note 11) and with its directors and executive officers.

Notes to the Consolidated Financial Statements

25 Related parties (continued)

Key management personnel disclosures (continued)

Other related party transactions

Subsidiaries

Loans are made by the Company to wholly owned subsidiaries for exploration and evaluation expenses and administrative expenses. Loans outstanding between the Company and its controlled entities are repayable on demand. The Company does not expect to recall these loans in the next 12 months. At 31 December 2006, such loans to subsidiaries totalled $14,918 (2005: $13,493).

26 Investments

In AUD (thousands)

	Consolidated		Company	
	2006	**2005**	**2006**	**2005**
Non-current investments				
Investment in controlled entities	-	-	20,184	-

	Country of Incorporation	Ownership interest	
		2006	**2005**
Parent entity			
Compass Resources NL	**Australia**		
Significant subsidiaries			
Compass Minerals Ltd.	U.S.A	-	100%
Compass Staff Equity Pty. Ltd	Australia	100%	100%
Four Points Exploration Ltd	Australia	100%	100%
Compass Mining Pty Ltd(former Compass Exploration Pty. Ltd)	Australia	100%	100%
Guardian Resources	Australia	100%	-

Compass Minerals Ltd. , a Delaware USA corporation was wound up following the relinquishment of the company's interests in the USA.

Another 100% Australian subsidiary, Rum Jungle Mining Ltd, was incorporated in January 2007.

27 Auditors' remuneration

In AUD	Consolidated 2006	Consolidated 2005	The Company 2006	The Company 2005
Audit services				
Auditors of the Company				
KPMG Australia:				
Audit and review of financial reports	32,000	39,500	32,000	39,500
Tax services	4,175	-	4,175	-
	36,175	**39,500**	**36,175**	**39,500**

Notes to the Consolidated Financial Statements

28 Acquisitions of subsidiary

On 31 July 2006 the Group acquired all of the shares in Guardian Resources Pty Ltd through the issue of 8.25 million shares, valued at $19,883,000. The company held 10% of the mining rights to the Brown project, Mt Fitch, and Batchelor and Area 55 resources based in the Northern Territory. The company is an exploration company which did not generate any revenue.

The acquisition had the following effect on the Group's assets and liabilities on acquisition date.

In AUD (thousands)	**Pre-acquisition carrying amounts**	**Fair value adjustments**	**Recognised values on acquisition**
Capitalized exploration and evaluation	280	25,882	26,162
Deferred tax liabilities	-	(5,973)	(5,973)
Net identifiable assets and liabilities	280	19,909	20,189
Consideration paid -- satisfied in issue of shares			19,883
-- satisfied in cash			306
			20,189

29 Subsequent events

Events Subsequent to Balance Date

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity, in subsequent financial years.

Directors' declaration

1 In the opinion of the directors of Compass Resources NL ("the Company"):

(a) the financial statements and notes, set out on pages 16 to 47, are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the financial position of the Company and the consolidated entity as at 31 December 2006 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2 The directors have been given the declarations by the chief executive officer and chief financial officer for the financial year ended 31 December 2006 pursuant to Section 295A of the Corporations Act 2001.

Dated at Sydney 30th day of March 2007.

Signed in accordance with a resolution of the directors:

Phillip Cohen
Director

Independent audit report to members of Compass Resources NL

Scope

The financial report and directors' responsibility

The financial report comprises the income statements, statements of recognised income and expense, balance sheets, statement of cash flows, accompanying notes 1 to 29 to the financial statements, and the directors' declaration for both Compass Resources NL (the "Company") and Compass Resources NL and its subsidiaries (the "group"), for the year ended 31 December 2006. The group comprises both the Company and the subsidiaries it controlled during that year.

The directors of the Company are responsible for the preparation and true and fair presentation of the financial report in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit in order to express an opinion to the members of the Company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, Australian Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company's and the group's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Audit opinion

In our opinion, the financial report of Compass Resources NL is in accordance with:

a) the *Corporations Act 2001*, including:

   i. giving a true and fair view of the Company's and the group's financial position as at 31 December 2006 and of their performance for the financial year ended on that date; and

   ii. complying with Australian Accounting Standards and the Corporations Regulations 2001; and

b) other mandatory financial reporting requirements in Australia.

KPMG

KPMG

Anthony Jones
Partner
Sydney, 30 March 2007